

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements may appear throughout this report, including the following section "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements are typically identified by such words as "aim", "anticipate", "believe", "could", "continue", "estimate", "expect", "intend", "may", "ongoing", "plan", "potential", "predict", "will", "should", "would", "could", "likely", "generally", "future", "long-term", or the negative of these terms, and similar expressions intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially.

While we have not described all potential risks related to our business and owning our common shares, the important factors discussed in "Part II, Item 1A: Risk Factors" of this Quarterly Report on Form 10-Q and in "Part I, Item 1A: Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018, which is available on our website at www.rbaction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com, are among those that we consider may affect our performance materially or could cause our actual financial and operational results to differ significantly from our expectations. Except as required by applicable securities law and regulations of relevant securities exchanges, we do not intend to update publicly any forward-looking statements, even if our expectations have been affected by new information, future events or other developments.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"). Except for Gross Transaction Value ("GTV")¹, which is a measure of operational performance and not a measure of financial performance, liquidity, or revenue, the amounts discussed below are based on our consolidated financial statements. Unless indicated otherwise, all tabular dollar amounts, including related footnotes, presented below are expressed in thousands of United States ("U.S.") dollars.

In the accompanying analysis of financial information, we sometimes use information derived from consolidated financial data but not presented in our financial statements prepared in accordance with US GAAP. Certain of these data are considered "non-GAAP financial measures" under the SEC rules. The definitions and reasons we use these non-GAAP financial measures and the reconciliations to their most directly comparable US GAAP financial measures are included either with the first use thereof or in the Non-GAAP Measures section within the MD&A. Non-GAAP financial measures referred to in this report are labeled as "non-GAAP measure" or designated as such with an asterisk (*). Please see pages 38-44 for explanations of why we use these non-GAAP measures and the reconciliation to the most comparable GAAP financial measures.

Beginning in the first quarter of 2019, we are no longer disclosing agency proceeds*. Please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 for more information.

Overview

Ritchie Bros. Auctioneers Incorporated ("Ritchie Bros.", the "Company", "we", or "us") (NYSE & TSX: RBA) was founded in 1958 in Kelowna, British Columbia, Canada and is a world leader in asset management and disposition of used industrial equipment and other durable assets, selling \$4.96 billion of used equipment and other assets during 2018. Our expertise, unprecedented global reach, market insight, and trusted portfolio of brands provide us with a unique position in the used equipment market. We sell used equipment for our customers through live, unreserved auctions at 40 auction sites worldwide, which are also simulcast online to reach a global bidding audience and through our online marketplaces.

Through our unreserved auctions, online marketplaces, and private brokerage services, we sell a broad range of used and unused equipment, including earthmoving equipment, truck trailers, government surplus, oil and gas equipment and other industrial assets. Construction and heavy machinery comprise the majority of the equipment sold. Customers selling equipment through our sales channels include end users (such as construction companies), equipment dealers, original equipment manufacturers ("OEMs") and other equipment owners (such as rental companies). Our customers participate in a variety of sectors, including heavy construction, transportation, agriculture, energy, and mining.

We operate globally with locations in more than 13 countries, including the U.S., Canada, Australia, the United Arab Emirates, and the Netherlands, and employ more than 2,200 full time employees worldwide.

¹ GTV represents total proceeds from all items sold at our live on site auctions and online marketplaces. GTV is not a measure of financial performance, liquidity, or revenue, and is not presented in our consolidated financial statements.

Service Offerings

As part of our Auction and Marketplace (“A&M”) solutions, we offer our equipment seller and buyer customers multiple distinct, complementary, multi-channel brand solutions that address the range of their needs. Our global customer base has a variety of transaction options, breadth of services, and the widest selection of used equipment available to them. For a complete listing of channels and brand solutions available under our A&M segment, as well as our Other services segment, please refer to our Annual Report on Form 10-K for the year ended December 31, 2018, which is available on our website at www.rbaction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com.

Contract options

As part of our A&M business, we offer sellers several contract options to meet their individual needs and sale objectives, including:

- Straight commission contracts, where the consignor receives the gross proceeds from the sale less a pre-negotiated commission rate;
- Guarantee contracts, where the consignor receives a guaranteed minimum amount plus an additional amount if proceeds exceed a specified level; and
- Inventory contracts, where we purchase, take custody, and hold used equipment and other assets before they are resold in the ordinary course of business.

We refer to guarantee and inventory contracts as underwritten contracts.

We also provide a wide array of value-added services to make the process of selling and buying equipment convenient for our customers, including repair and refurbishment services, financial services through Ritchie Bros. Financial Services (“RBFS”), logistical services, and appraisals.

Seasonality

Our operations are both seasonal and event-driven. Total revenue and GTV tend to be the highest during the second and fourth calendar quarters. We generally conduct more live on site auctions during these quarters than during the first and third calendar quarters. Late December through mid-February and mid-July through August are traditionally less active periods. Online volumes are similarly affected as supply of used equipment is lower in the third quarter as it is actively being used and not available for sale.

Revenue Mix Fluctuations

Our revenue is comprised of service revenue and inventory sales revenue. Service revenue from A&M segment activities include commissions earned at our live auctions, online marketplaces, and private brokerage services, and various auction-related fees, including listing and buyer transaction fees. We also recognize revenues from our Other Services activities as service revenue. Inventory sales revenue is recognized as part of our A&M activities, and relates to revenues earned through our inventory contracts.

Inventory sales revenue can fluctuate significantly, as it changes based on whether our customers sell using a straight commission contract, guarantee contract, or an inventory contract at time of selling. Straight commission contracts and guarantee contracts will result in the commission being recognized as service revenue, while inventory contracts will result in the GTV of the equipment sold being recorded as inventory sales revenue with the related cost recognized in cost of inventory sold. As a result, a change in the revenue mix between service revenue and inventory sales revenue can have a significant impact on revenue growth percentages.

Performance Overview

Net income attributable to stockholders increased 6% to \$18.2 million compared to \$17.1 million in Q1 2018. Diluted earnings per share ("EPS") attributable to stockholders increased 6% to \$0.17 per share in Q1 2019 compared to \$0.16 per share in Q1 2018.

Consolidated results:

- Total revenue increased 17% to \$303.4 million in Q1 2019 compared to \$260.2 million in Q1 2018
 - Service revenue decreased 2% to \$172.4 million in Q1 2019 compared to \$176.0 million in Q1 2018
 - Inventory sales revenue increased 56% to \$131.1 million in Q1 2019, compared to \$84.2 million in Q1 2018
- Selling, general and administrative expenses ("SG&A") decreased 2% to \$95.2 million in Q1 2019, compared to \$97.5 million in Q1 2018
- Operating income increased 2% to \$33.6 million in Q1 2019 compared to \$32.9 million in Q1 2018
- Cash provided by operating activities was \$71.9 million for the three-month period ended March 31, 2019

Auctions & Marketplaces segment results:

- GTV of \$1.2 billion increased 1% from Q1 2018. Excluding the impact of foreign exchange, GTV increased 3% from Q1 2018
- A&M total revenue of \$274.5 million increased 18% from \$232.6 in Q1 2018
 - Service revenue decreased 3% to \$143.4 million in Q1 2019 compared to \$148.4 million in Q1 2018
 - Inventory sales revenue increased 56% to \$131.1 million in Q1 2019 compared to \$84.2 million in Q1 2018

Other Services segment results:

- Other Services total revenue of \$28.9 million increased by 5% from \$27.6 million in Q1 2018
- RBFS revenue of \$6.3 million increased 32% from \$4.7 million in Q1 2018

Results of Operations

Financial overview

(in U.S. \$000's, except EPS)	Three months ended March 31,		% Change
	2019	2018	2019 over 2018
Service revenue:			
Commissions	\$ 92,280	\$ 101,294	(9%)
Fees	80,092	74,722	7%
Total service revenue	172,372	176,016	(2%)
Inventory sales revenue	131,057	84,162	56%
Total revenue	303,429	260,178	17%
Service revenue as a % of total revenue	56.8%	67.7%	-1090 bps
Inventory sales revenue as a % of total revenue	43.2%	32.3%	1090 bps
Costs of services	36,069	36,657	(2%)
Cost of inventory sold	120,475	75,791	59%
Selling, general and administrative expenses	95,184	97,470	(2%)
Operating expenses	269,841	227,305	19%
Cost of inventory sold as a % of operating expenses	44.6%	33.3%	1130 bps
Operating income	33,588	32,873	2%
Operating income margin	11.1%	12.6%	-150 bps
Net income attributable to stockholders	18,164	17,138	6%
Diluted earnings per share attributable to stockholders	\$ 0.17	\$ 0.16	6%
Diluted adjusted EPS attributable to stockholders (non-GAAP measure)	\$ 0.17	\$ 0.16	6%
Effective tax rate	26.8%	23.4%	340 bps
Total GTV	1,174,681	1,160,712	1%
Service revenue as a % of total GTV- Rate	14.7%	15.2%	-50 bps
Inventory sales revenue as a % of total GTV- Mix	11.2%	7.3%	390 bps

Total revenue

Total revenue increased 17% to \$303.4 million primarily due to a 56% increase in inventory sales revenue, partially offset by a 2% decrease in service revenue.

Inventory sales revenue was \$131.1 million in Q1 2019, an increase of 56% compared to \$84.2 million, primarily due to an increase in volume of inventory sales contracts in the US and Europe. As a percent of GTV, our GTV from inventory sales revenue was 11.2% in Q1 2019, compared to 7.3% in Q1 2018.

The decline in service revenue resulted from a 9% decrease in commissions offset by a 7% increase in fees. Lower commissions were attributable to lower price realization on guarantee contracts as well as a decrease in the volume of straight commission contracts. The lower rates earned from guarantee contracts was partially due to softer price performance on specific assets in greater supply at the 2019 Orlando auction. Fee revenue increased 7% due to moderately higher GTV volume with an increased proportion of low value lots, online inspection fees and fees earned from RBFS.

Foreign exchange had an unfavourable impact on total revenue in Q1 2019 due to fluctuations in the Euro and Canadian exchange rate relative to the U.S. dollar.

Income tax expense and effective tax rate

At the end of each interim period, the Company estimates the effective tax rate expected to be applicable for the full fiscal year. The estimate reflects, among other items, management's best estimate of operating results. It does not include the estimated impact of foreign exchange rates or unusual and/or infrequent items, which may cause significant variations in the customary relationship between income tax expense and income before income taxes.

For the three months ended March 31, 2019, income tax expense was \$6.6 million, compared to an income tax expense of \$5.3 million for the same period in 2018. Our effective tax rate was 26.8% in Q1 2019, compared to 23.4% in Q1 2018.

Net income

Net income attributable to stockholders increased \$1.0 million, or 6%, from \$17.1 million in Q1 2018 due to higher operating income coupled with lower net interest expenses. This increase was partially offset by an increase in the effective tax rate.

Diluted EPS

Diluted EPS attributable to stockholders increased 6% to \$0.17 per share for Q1 2019 from \$0.16 per share in Q1 2018.

U.S. dollar exchange rate comparison

We conduct global operations in many different currencies, with our presentation currency being the U.S. dollar. The following table presents the variance in select foreign exchange rates over the comparative reporting periods:

Value of one local currency	Three months ended March 31,		
	2019	2018	% Change 2019 over 2018
Period-end exchange rate			
Canadian dollar	0.7491	0.7761	(3%)
Euro	1.1218	1.2300	(9%)
Australian dollar	0.7096	0.7677	(8%)
Average exchange rate			
Canadian dollar	0.7524	0.7906	(5%)
Euro	1.1355	1.2292	(8%)
Australian dollar	0.7124	0.7861	(9%)

Non-GAAP Measures

As part of management's non-GAAP measures, we may eliminate the financial impact of adjusting items which are after-tax effects of significant non-recurring items that we do not consider to be part of our normal operating results, such as acquisition-related costs, management reorganization costs, severance, retention, gains/losses on sale of an equity accounted for investment, plant and equipment, impairment losses, and certain other items, which we refer to as 'adjusting items'. There were no adjusting items in Q1 2019 or Q1 2018.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") (non-GAAP measure) increased \$2.3 million, or 5%, to \$51.9 million in Q1 2019 from \$49.6 million in Q1 2018.

Debt at the end of Q1 2019, represented 5.8 times net income as at and for the 12 months ended March 31, 2019. This compares to debt at Q1 2018, which represented 9.6 times net income as at and for the 12 months ended March 31, 2018. The decrease in this debt/net income multiplier was primarily due to lower debt balances at March 31, 2019 compared to March 31, 2018, as a result of our voluntary and involuntary debt repayments. The adjusted net debt/adjusted EBITDA (non-GAAP measure) was 1.7 times as at and for the 12 months ended March 31, 2019 compared to 2.5 times as at and for the 12 months ended March 31, 2018.

Segment Performance

(in U.S \$000's)	Three months ended March 31, 2019					
		A&M	Other	Consolidated		
Service revenue	\$	143,437	\$	28,935	\$	172,372
Inventory sales revenue		131,057		-		131,057
Total revenue		274,494		28,935		303,429
Ancillary and logistical service expenses		-		13,759		13,759
Other costs of services		20,817		1,493		22,310
Cost of inventory sold		120,475		-		120,475
SG&A expenses		89,182		6,002		95,184
Segment profit	\$	44,020	\$	7,681	\$	51,701

(in U.S \$000's)	Three months ended March 31, 2018					
		A&M	Other	Consolidated		
Service revenue	\$	148,405	\$	27,611	\$	176,016
Inventory sales revenue		84,162		-		84,162
Total revenue		232,567		27,611		260,178
Ancillary and logistical service expenses		-		14,580		14,580
Other costs of services		21,448		629		22,077
Cost of inventory sold		75,791		-		75,791
SG&A expenses		93,002		4,468		97,470
Segment profit	\$	42,326	\$	7,934	\$	50,260

Auctions and Marketplaces Segment

Results of A&M segment operations

(in U.S. \$000's)	Three months ended March 31,			% Change
	2019	2018	2019 over 2018	
Service revenue	\$ 143,437	\$ 148,405	(3%)	
Inventory sales revenue	131,057	84,162	56%	
Total revenue	274,494	232,567	18%	
A&M service revenue as a % of total A&M revenue	52.3%	63.8%	-1150 bps	
Inventory sales revenue as a % of total A&M revenue	47.7%	36.2%	1150 bps	
Costs of services	20,817	21,448	(3%)	
Cost of inventory sold	120,475	75,791	59%	
SG&A expenses	89,182	93,002	(4%)	
A&M segment expenses	\$ 230,474	\$ 190,241	21%	
Cost of inventory sold as a % of A&M expenses	52.3%	39.8%	1250 bps	
A&M segment profit	\$ 44,020	\$ 42,326	4%	
Total GTV	1,174,681	1,160,712	1%	
A&M service revenue as a % of total GTV- Rate	12.2%	12.8%	-60 bps	

Gross Transaction Value

We believe it is meaningful to consider revenue in relation to GTV. GTV by channel and by revenue type are presented below for the three months ended March 31, 2019:

GTV by Channel

(in U.S \$000's)	Three months ended March 31,			% Change
	2019	2018	2019 over 2018	
Live on site auctions	\$ 971,599	\$ 974,026	(0%)	
Percentage of total	82.7%	83.9%		
Online marketplaces including featured ⁽¹⁾ and other ⁽²⁾	203,082	186,686	9%	
Percentage of total	17.3%	16.1%		
GTV	\$ 1,174,681	\$ 1,160,712	1%	

(1) This represents GTV from IronPlanet's Weekly Featured Auction, which operates under an unreserved auction model.

(2) This includes GTV from Marketplace-E and, before that, EquipmentOne.

GTV by Revenue Type

(in U.S \$000's)	Three months ended March 31,			% Change
	2019	2018	2019 over 2018	
Service GTV	\$ 1,043,624	\$ 1,076,550	(3%)	
Percentage of total	88.8%	92.7%		
Inventory GTV	131,057	84,162	56%	
Percentage of total	11.2%	7.3%		
GTV	\$ 1,174,681	\$ 1,160,712	1%	

Overall, GTV increased 1% to \$1.2 billion in Q1 2019; excluding the impact of foreign exchange, GTV increased 3%. GTV from live on site auctions was flat partly due to the Q1 2018 Grande Prairie auction of \$37 million that did not repeat in Q1 2019, offset by growth in live on site auctions in the US and Europe. Online marketplaces GTV posted consecutive quarter growth delivering a 9% increase in the first quarter.

GTV from inventory contracts increased 56%, while Service GTV decreased 3% compared to Q1 2018. These changes were primarily due to higher sourced inventory deals in US and in Europe.

We offer our customers the opportunity to use underwritten commission contracts to serve their disposition strategy needs, entering into such contracts where the risk and reward profile of the terms are agreeable. Our underwritten contracts, which includes inventory and guarantee contracts, increased to 16.5% in Q1 2019, compared to 12.9% in Q1 2018, primarily due to higher inventory contracts.

Online bidding

Across all channels, 60% of total GTV was purchased by online buyers in Q1 2019 compared to 56% in Q1 2018. This increase in internet bidders and online buyers show that we continued to promote multi-channel participation at our auctions through Q1 2019.

Total industrial live on site auction metrics

	Three months ended March 31,		% Change
	2019	2018	2019 over 2018
Number of auctions	35	35	0%
Bidder registrations	143,000	119,000	20%
Consignments	11,550	10,750	7%
Buyers	30,750	29,000	6%
Lots	86,250	81,000	6%

The total number of industrial lots increased 6% to 86,250, and the total number of lots including agricultural lots increased 6% to 88,000 lots in Q1 2019, primarily due to an increase of smaller value lots sold in Q1 2019. Total live auctions, including agricultural, were 47 in Q1 2019 compared to 52 in Q1 2018.

Average industrial live on site auction metrics

(in U.S \$000's)	12 months ended March 31,			% Change
	2019	2018	2019 over 2018	
GTV	\$ 21.2 million	\$ 15.9 million	\$ 33%	
Bidder registrations	3,164	2,405	32%	
Consignments	300	233	29%	
Lots	2,089	1,576	33%	

We saw an increase in average GTV per industrial auction for the 12 months ended March 31, 2019 compared to the 12 months ended March 31, 2018. The increase was primarily driven by our site optimization strategy to close five on site auction locations across North America to focus on online sales and largers auctions, as announced at the end of 2017.

GTV on a per lot basis generated at our industrial live on site auctions decreased 4% to \$11,000 in Q1 2019 compared to \$11,500 in Q1 2018, primarily due to an increase of smaller value lots sold in Q1 2019.

Productivity

The majority of our business continues to be generated by our A&M segment operations. Sales Force Productivity within this segment is an operational statistic that we believe provides a gauge of the effectiveness of our Revenue Producers in increasing GTV. Revenue Producers is a term used to describe our revenue-producing sales personnel. This definition is comprised of Regional Sales Managers and Territory Managers.

Our Sales Force Productivity for the trailing 12-month period ended March 31, 2019 was \$11.6 million per Revenue Producer compared to \$11.3 million per Revenue Producer for the trailing 12-month period ended March 31, 2018.

Sales Force Productivity for the 12-month period ended March 31, 2018 was calculated as the sum of the following two amounts:

- GTV for the two months, pre-Acquisition, ended May 31, 2017, divided by the average number of Revenue Producers over the same two-month period; and
- GTV for the ten months following the Acquisition divided by the average number of Revenue Producers over the same ten-month period.

A&M revenue

Total A&M revenue was \$274.5 million, an increase of \$41.9 million, or 18%, from Q1 2018. The increase in total revenue was primarily due to the \$46.9 million, or 56%, increase in inventory sales revenue, partially offset by a 3% decrease in service revenue.

A&M revenue by geographical region are presented below:

(in U.S \$000's)	Three months ended March 31,		
	2019	2018	% Change 2019 over 2018
United States			
Service revenue	\$ 102,975	\$ 103,206	(0%)
Inventory sales revenue	67,944	19,498	248%
A&M revenue- United States	170,919	122,704	39%
Canada			
Service revenue	19,768	21,726	(9%)
Inventory sales revenue	3,785	37,161	(90%)
A&M revenue- Canada	23,553	58,887	(60%)
International			
Service revenue	20,694	23,474	(12%)
Inventory sales revenue	59,328	27,502	116%
A&M revenue- International	80,022	50,976	57%
Total			
Service revenue	143,437	148,406	(3%)
Inventory sales revenue	131,057	84,161	56%
A&M total revenue	274,494	232,567	18%

Changes in A&M segment revenue in Q1 2019 compared to Q1 2018 were primarily driven by:

- United States– 39% increase was due to a \$48.4 million increase in inventory sales revenue. We strategically accepted a large volume of inventory contracts to secure equipment supply for our 2019 Orlando auction, the largest auction ever hosted by Ritchie Bros. We also experienced revenue growth in our GovPlanet non-rolling stock program as the contract was launched in Q2 2018. Service revenue remains unchanged with lower volume of commission revenues and lower guarantee rate performance, offset by higher fees revenue.
- Canada– 60% decrease was primarily due to a \$33.4 million decrease in inventory sales revenue, and a \$2.0 million decrease in service revenue. There was higher inventory sales revenue in Q1 2018 compared to Q1 2019 primarily due to the dispersal of large oil and gas equipment from our Q1 2018 Grande Prairie auction of \$37 million that did not repeat in Q1 2019. Service revenue decreased 9% primarily due to lower volume from our commission contracts.
- International– 57% increase was primarily due to a \$31.8 million increase in inventory sales revenue, partially driven by macroeconomic conditions in parts of Europe and Asia creating a more favourable supply environment. This increase was offset by the \$2.8 million decrease in service revenue caused by the change in revenue mix between service revenue and inventory sales revenue.

Costs of services

A&M costs of services decreased \$0.6 million, or 3%, in Q1 2019 compared to Q1 2018, which was in-line with the change in GTV.

Cost of inventory sold

A&M cost of inventory sold increased \$44.7 million, or 59%, in Q1 2019 compared to Q1 2018, in line with higher activity in inventory sales revenue. A contributing factor to the higher cost of inventory sold in the quarter resulted from discrete lower price performance on certain categories of equipment which was in greater supply at the February 2019 Orlando auction.

SG&A expenses

Our A&M segment SG&A expenses decreased \$3.8 million, or 4%, in Q1 2019 compared to Q1 2018. The decrease was primarily due to higher share unit expenses in Q1 2018 related to mark-to-market costs driven by growth in the share price and incremental compensation cost resulting from the modification of certain performance factors. The decrease was partially offset by on-going incremental costs related to the GovPlanet non-rolling stock program.

Foreign exchange rates had a favourable impact on SG&A expenses in the quarter primarily due to fluctuations of the Euro and Canadian dollar exchange rate relative to the U.S. dollar.

Other Services Segment

(in U.S \$000's)	Three months ended March 31,			% Change	
	2019		2018		
Service revenue	\$	28,935	\$	27,611	5%
Ancillary and logistical service expenses		13,759		14,580	(6%)
Other costs of services		1,493		629	137%
SG&A expenses		6,002		4,468	34%
Other services profit	\$	7,681	\$	7,934	(3%)

Revenue from other services increased \$1.3 million, or 5%, in Q1 2019 compared to Q1 2018. This increase was primarily due to the increase in RBFS revenue of \$1.5 million and RB Logistics of \$1.5 million, offset by lower ancillary service revenue of \$1.7 million. Ancillary service revenue decreased partially due to less ancillary services provided across our auction sites in the US.

Funded volume, which represents the amount of lending brokered by RBFS, increased 25% from \$95.0 million in Q1 2018 to \$119.3 million in Q1 2019. RBFS segment revenue was \$6.3 million in Q1 2019, a 32% increase compared to \$4.7 million in Q1 2018. RBFS operating profit increased 32% over the same comparative period to \$2.9 million from \$2.2 million. Logistical services revenue grew primarily to support our European customers.

SG&A expenses in the other segment increased \$1.5 million, or 34% primarily due to expenses incurred to support the growth of RBFS.

Other services profit decreased \$0.3 million, or 3% primarily due to lower profits from our appraisal services, partially offset by the growth in RBFS.

Liquidity and Capital Resources

We assess our liquidity based on our ability to generate cash to fund operating, investing, and financing activities. Our liquidity is primarily affected by fluctuations in cash provided by operating activities, payment of dividends, voluntary repayments of term debt, our net capital spending, and significant acquisitions of businesses.

Operating activities continue to be the primary source of our cash, as well as borrowings from our revolving credit facilities to fund significant acquisitions and various business activities. Cash provided by operating activities can fluctuate significantly from period to period due to factors such as differences in the timing, size, and number of auctions during the period, the volume of our inventory contracts, the timing of the receipt of auction proceeds from buyers and of the payment of net amounts due to consignors, as well as the location of the auction with respect to restrictions on the use of cash generated therein.

Cash flows

(in U.S \$000's)	Three months ended March 31,		
	2019	2018	% Change 2019 over 2018
Cash provided by (used in):			
Operating activities	\$ 71,903	\$ 67,238	7%
Investing activities	(8,164)	(13,206)	(38%)
Financing activities	(44,696)	(45,417)	(2%)
Effect of changes in foreign currency rates	(1,376)	1,627	(185%)
Net increase in cash, cash equivalents, and restricted cash	\$ 17,667	\$ 10,242	72%

Operating activities

Cash provided by operating activities increased \$4.7 million in Q1 2019 compared to Q1 2018. This increase was primarily due to changes in certain of our operating assets and liabilities and a \$1.0 million increase in our net income over the comparative period. Changes in operating assets and liabilities generated \$2.1 million more cash in Q1 2019 than Q1 2018, which included a \$34.0 million increase in cash from changes in inventory, partially offset by changes in trade and other payables. Inventory changes consisted primarily of a reduction in inventory in the United States and Europe during Q1 2019. Changes in trade and other payables were driven by payment of annual bonus, interest on senior notes, as well as, the timing, size, and number of auctions over the comparative period, as well as the volume of our inventory contracts.

Investing activities

Net cash used in investing activities decreased \$5.0 million in Q1 2019 compared to Q1 2018. This decrease is primarily due to our acquisition of Leake Auction Company in Q1 2018. Net capital spending was \$8.2 million in Q1 2019 compared to \$8.5 million in Q1 2018.

Financing activities

Net cash used in financing activities decreased \$0.7 million in Q1 2019 compared to Q1 2018. The primary uses of cash in financing activities in Q1 2019 were \$23.4 million of net repayments of debt, including \$10.0 million of voluntary term debt repayments, and \$19.6 million of dividend payments. This compares to \$30.7 million of net repayments of debt, including \$25.0 million of voluntary term debt repayments, and \$18.2 million of dividend payments in Q1 2018.

Dividend information

We declared and paid a regular cash dividend of \$0.17 per common share for the quarter ended March 31, 2018, and \$0.18 per common share for the quarters ended June 30, 2018, September 30, 2018, and December 31, 2018. We have declared, but not yet paid, a dividend of \$0.18 per common share for the quarter ended March 31, 2019. All dividends that we pay are "eligible dividends" for Canadian income tax purposes unless indicated otherwise.

Our dividend payout ratio, which we calculate as dividends paid to stockholders divided by net income attributable to stockholders, decreased to 62.9% for the 12 months ended March 31, 2019 from 89.0% for the 12 months ended March 31, 2018. This decrease is primarily due to the increase in net income attributable to stockholders over the comparative period. Our adjusted dividend payout ratio (non-GAAP measure) decreased to 64.9% for the 12 months ended March 31, 2019 from 79.0% for the 12 months ended March 31, 2018.

Return on average invested capital

Our return on average invested capital is calculated as net income attributable to stockholders divided by our average invested capital. We calculate average invested capital over a trailing 12-month period by adding the average long-term debt over that period to the average stockholders' equity over that period.

Return on average invested capital increased 220 bps to 8.0% for the 12-month period ending March 31, 2019 from 5.8% for the 12-month period ending March 31, 2018. This increase is primarily due to an increase in net income attributable to stockholders over the comparative period, partially offset by an increase in average stockholders' equity and long-term debt. Return on invested capital ("ROIC") (non-GAAP measure) increased 120 bps to 7.7% during the 12 months ended March 31, 2019 compared to 6.5% for the 12 months period ending March 31, 2018.

Debt covenants

We were in compliance with all financial and other covenants applicable to our credit facilities at March 31, 2019.

Share repurchase program

On May 8, 2019, our Board of Directors authorized a share repurchase program for the repurchase of up to \$100 million worth of our common shares (subject to the Toronto Stock Exchange "TSX" approval) over the next 12 months.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, financial performance, liquidity, capital expenditures or capital resources.

Critical Accounting Policies, Judgments, Estimates and Assumptions

Aside from the adoption of ASU 2016-02, *Leases (Topic 842)*, discussed below, there were no material changes in our critical accounting policies, judgments, estimates and assumptions from those disclosed in the following our Annual Report on Form 10-K for the year ended December 31, 2018, or in the notes to our consolidated financial statements included in "Part I, Item 1: Consolidated Financial Statements" in this Quarterly Report on Form 10-Q.

Effective January 1, 2019, we adopted Topic 842, which requires lessees to recognize almost all leases, including operating leases, on the balance sheet through a right-of-use asset and a corresponding lease liability. We utilized the optional transition approach, which permits us to apply the new lease standards at the adoption date.

On adoption of the new standard, we recognized a right-of-use asset relating to operating leases of \$103,897,000 with a corresponding increase in operating lease liability. Offsetting the increase in the ROU asset recognized was the reclassification of a deferred rent liability from other non-current liability to ROU asset of \$5,752,000. There was no impact on retained earnings or cash flows.

The adoption of the standard had no impact on our debt-covenant compliance under our current agreements.

Non-GAAP Measures

We reference various non-GAAP measures throughout this Quarterly Report on Form 10-Q. These measures do not have a standardized meaning and are, therefore, unlikely to be comparable to similar measures presented by other companies. The presentation of this financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered in isolation of, or as a substitute for, the financial information prepared and presented in accordance with generally accepted accounting principles. Non-GAAP financial measures referred to in this report are labeled as "non-GAAP measure" or designated as such with an asterisk (*).

Adjusted Operating Income* Reconciliation

Adjusted operating income* eliminates the financial impact of adjusting items which are significant non-recurring items that we do not consider to be part of our normal operating results, such as acquisition-related costs, management reorganization costs, and certain other items, which we refer to as 'adjusting items'.

The following table reconciles adjusted operating income to operating income, which is the most directly comparable GAAP measure in our consolidated income statements.

There were no adjusting items in Q1 2019 or in the comparative prior period.

(in U.S. \$000's)	Three months ended March 31,			% Change 2019 over 2018
	2019	2018		
Operating income	\$ 33,588	\$ 32,873	2%	
Adjusted operating income*	\$ 33,588	\$ 32,873	2%	

(1) Adjusted operating income* represents operating income excluding the effects of adjusting items.

Adjusted Net Income Attributable to Stockholders* and Diluted Adjusted EPS Attributable to Stockholders* Reconciliation

We believe that adjusted net income attributable to stockholders* provides useful information about the growth or decline of our net income attributable to stockholders for the relevant financial period and eliminates the financial impact of adjusting items we do not consider to be part of our normal operating results. Diluted Adjusted EPS attributable to stockholders* eliminates the financial impact of adjusting items which are after-tax effects of significant non-recurring items that we do not consider to be part of our normal operating results, such as acquisition-related costs, management reorganization costs, and certain other items, which we refer to as 'adjusting items'.

The following table reconciles adjusted net income attributable to stockholders* and diluted adjusted EPS attributable to stockholders* to net income attributable to stockholders and diluted EPS attributable to stockholders, which are the most directly comparable GAAP measures in our consolidated income statements.

There were no adjusting items in Q1 2019 or in the comparative prior period.

(in U.S. \$000's, except share and per share data)	Three months ended March 31,			% Change 2019 over 2018
	2019		2018	
Net income attributable to stockholders	\$ 18,164	\$	17,138	6%
Adjusted net income attributable to stockholders*	\$ 18,164	\$	17,138	6%
Weighted average number of dilutive shares outstanding	110,044,213		108,643,897	1%
Diluted earnings per share attributable to stockholders	\$ 0.17	\$	0.16	6%
Diluted adjusted EPS attributable to Stockholders*	\$ 0.17	\$	0.16	6%

(1) Adjusted net income attributable to stockholders* represents net income attributable to stockholders excluding the effects of adjusting items.

(2) Diluted adjusted EPS attributable to stockholders* is calculated by dividing adjusted net income attributable to stockholders*, net of the effect of dilutive securities, by the weighted average number of dilutive shares outstanding.

Adjusted EBITDA*

We believe adjusted EBITDA* provides useful information about the growth or decline of our net income when compared between different financial periods.

The following table reconciles adjusted EBITDA* to net income, which is the most directly comparable GAAP measures in, or calculated from, our consolidated income statements:

(in U.S. \$000's)	Three months ended March 31,			% Change 2019 over 2018
	2019		2018	
Net income	\$ 18,172	\$	17,207	6%
Add: depreciation and amortization expenses	17,115		16,191	6%
Add: interest expense	10,816		11,310	-4%
Less: interest income	(855)		(392)	118%
Add: income tax expense	6,639		5,269	26%
Adjusted EBITDA*	\$ 51,887	\$	49,585	5%

(1) Adjusted EBITDA* is calculated by adding back depreciation and amortization expenses, interest expense, and income tax expense, and subtracting interest income from net income excluding the pre-tax effects of adjusting items.

Adjusted EBITDA* and Adjusted Net Debt/Adjusted EBITDA* Reconciliation

We believe that comparing adjusted net debt/adjusted EBITDA* on a trailing 12-month basis for different financial periods provides useful information about the performance of our operations as an indicator of the amount of time it would take us to settle both our short and long-term debt. We do not consider this to be a measure of our liquidity, which is our ability to settle only short-term obligations, but rather a measure of how well we fund liquidity. Measures of liquidity are discussed under "Liquidity and Capital Resources".

The following table reconciles adjusted EBITDA* and adjusted net debt*/adjusted EBITDA* to debt, cash and cash equivalents, net income, and debt as a multiple of net income, which are the most directly comparable GAAP measures in, or calculated from, our consolidated financial statements.

(in U.S. \$ millions)	As at and for the 12 months ended March 31,			% Change 2019 over 2018
	2019	2018		
Short-term debt	\$ 8.7	\$ 5.9		47%
Long-term debt	703.3	780.3		-10%
Debt	712.0	786.2		-9%
Less: cash and cash equivalents	(266.5)	(278.9)		-4%
Adjusted net debt*	445.5	507.3		-12%
Net income	\$ 122.5	\$ 82.1		49%
Add: depreciation and amortization expenses	67.5	58.6		15%
Add: interest expense	44.0	41.5		6%
Less: interest income	(3.4)	(2.6)		31%
Add: income tax expense	32.4	-		100%
Pre-tax adjusting items:				
Accelerated vesting of assumed options	-	4.8		-100%
Acquisition and finance structure advisory	-	9.1		-100%
Severance and retention	1.5	3.6		-58%
Gain on sale of equity accounted for investment	(4.9)	-		100%
Impairment loss	-	8.9		-100%
Adjusted EBITDA*	\$ 259.6	\$ 206.0		26%
Debt/net income	5.8x	9.6x		(40%)
Adjusted net debt*/adjusted EBITDA*	1.7x	2.5x		(32%)

(1) Please refer to page 44 for a summary of adjusting items during the trailing 12-months ended March 31, 2019 and March 31, 2018.

(2) Adjusted EBITDA* is calculated by adding back depreciation and amortization expenses, interest expense, and income tax expense, and subtracting interest income from net income excluding the pre-tax effects of adjusting items.

(3) Adjusted net debt* is calculated by subtracting cash and cash equivalents from short and long-term debt.

(4) Adjusted net debt*/adjusted EBITDA* is calculated by dividing adjusted net debt* by adjusted EBITDA*.

Operating Free Cash Flow* (“OFCF”) Reconciliation

We believe OFCF*, when compared on a trailing 12-month basis to different financial periods provides an effective measure of the cash generated by our business and provides useful information regarding cash flows remaining for discretionary return to stockholders, mergers and acquisitions, or debt reduction. Our balance sheet scorecard includes OFCF* as a performance metric. OFCF* is also an element of the performance criteria for certain annual short-term and long-term incentive awards.

The following table reconciles OFCF* to cash provided by operating activities and net capital spending, which are the most directly comparable GAAP measures in, or calculated from, our consolidated statements of cash flows:

(in U.S. \$ millions)	12 months ended March 31,			% Change
		2019	2018	2019 over 2018
Cash provided by operating activities	\$	148.9	\$ 80.3	85%
Property, plant and equipment additions		17.1	11.5	49%
Intangible asset additions		24.7	30.0	-18%
Proceeds on disposition of property plant and equipment		(9.8)	(4.5)	118%
Net capital spending	\$	32.0	\$ 37.0	-14%
OFCF*	\$	116.9	\$ 43.3	170%

(1) OFCF* is calculated by subtracting net capital spending from cash provided by operating activities.

(2) The comparative figures for cash provided by operating activities in Q1 2018 has been restated to conform with prior year presentation.

Adjusted Net Income Attributable to Stockholders* and Adjusted Dividend Payout Ratio* Reconciliation

We believe that adjusted net income attributable to stockholders* provides useful information about the growth or decline of our net income attributable to stockholders for the relevant financial period and eliminates the financial impact of adjusting items we do not consider to be part of our normal operating results. We believe that disclosing our adjusted dividend payout ratio* for different financial periods provides useful information about how well our net income supports our dividend payments.

The following table reconciles adjusted net income attributable to stockholders* and adjusted dividend payout ratio* to net income attributable to stockholders, and dividend payout ratio, which are the most directly comparable GAAP measures in, or calculated from, our consolidated financial statements:

(in U.S. \$ millions)	12 months ended March 31,			% Change 2019 over 2018
	2019	2018		
Dividends paid to stockholders	\$ 77.0	\$ 72.8		6%
Net income attributable to stockholders	\$ 122.5	\$ 81.8		50%
Pre-tax adjusting items:				
Accelerated vesting of assumed options	-	4.8		-100%
Acquisition and finance structure advisory	-	9.1		-100%
Severance and retention	1.5	3.6		-58%
Impairment loss	-	8.9		-100%
Gain on sale of equity accounted for investment	(4.9)	-		100%
Current income tax effect of adjusting items:				
Acquisition and finance structure advisory	-	(2.4)		100%
Severance and retention	(0.4)	(0.7)		-43%
Deferred income tax effect of adjusting items:				
Severance and retention	-	(0.4)		100%
Impairment loss	-	(2.4)		100%
Deferred tax adjusting item:				
Remeasurement of deferred taxes	-	(10.1)		100%
Adjusted net income attributable to stockholders*	\$ 118.7	\$ 92.2		29%
Dividend payout ratio	62.9%	89.0%		-2610 bps
Adjusted dividend payout ratio*	64.9%	79.0%		-1410 bps

(1) Please refer to page 44 for a summary of adjusting items during the trailing 12-months ended March 31, 2019 and March 31, 2018.

(2) Adjusted net income attributable to stockholders* represents net income attributable to stockholders excluding the effects of adjusting items.

(3) Adjusted dividend payout ratio* is calculated by dividing dividends paid to stockholders by adjusted net income attributable to stockholders*.

Adjusted Net Income Attributable to Stockholders* and ROIC* Reconciliation

We believe that comparing ROIC on a trailing 12-month basis for different financial periods, provides useful information about the after-tax return generated by our investments.

The following table reconciles adjusted net income attributable to stockholders* and ROIC* to net income attributable to stockholders, long-term debt, stockholders' equity, return on average invested capital which are the most directly comparable GAAP measures in, or calculated from, our consolidated financial statements:

(in U.S. \$ millions)	As at and for the 12 months ended March 31,		
	2019	2018	% Change 2019 over 2018
Net income attributable to stockholders	\$ 122.5	\$ 81.8	50%
Pre-tax adjusting items:			
Accelerated vesting of assumed options	-	4.8	-100%
Acquisition and finance structure advisory	-	9.1	-100%
Severance and retention	1.5	3.6	-58%
Impairment loss	-	8.9	-100%
Gain on sale of equity accounted for investment	(4.9)	-	100%
Current income tax effect of adjusting items:			
Acquisition and finance structure advisory	-	(2.4)	100%
Severance and retention	(0.4)	(0.7)	-43%
Deferred income tax effect of adjusting items:			
Severance and retention	-	(2.4)	100%
Deferred tax adjusting item:			
Remeasurement of deferred taxes	-	(10.1)	100%
Adjusted net income attributable to stockholders*	\$ 118.7	\$ 92.2	29%
Opening long-term debt	\$ 780.3	\$ 596.4	31%
Ending long-term debt	703.3	780.3	-10%
Average long-term debt	741.8	688.4	8%
Opening stockholders' equity	\$ 752.3	\$ 691.4	9%
Ending stockholders' equity	828.1	752.3	10%
Average stockholders' equity	790.2	721.9	9%
Average invested capital	\$ 1,532.0	\$ 1,410.3	9%
Return on average invested capital	8.0%	5.8%	220 bps
ROIC*	7.7%	6.5%	120 bps

- (1) Please refer to page 44 for a summary of adjusting items during the trailing 12-months ended March 31, 2019 and March 31, 2018.
- (2) Return on average invested capital is calculated as net income attributable to stockholders divided by average invested capital. We calculate average invested capital as the average long-term debt and average stockholders' equity over a trailing 12-month period.
- (3) ROIC* is calculated as adjusted net income attributable to stockholders* divided by average invested capital.
- (4) The adoption of Leases (Topic 842) requires lessees to recognize almost all leases, including operating leases, on the balance sheet through a right-of-use asset and a corresponding lease liability. The lease liability is not included in the calculation of debt.

Adjusting items during the trailing 12-months ended March 31, 2019 were:

Recognized in the first quarter of 2019

- There were no adjustment items recognized in the first quarter of 2019.

Recognized in the fourth quarter of 2018

- There were no adjustment items recognized in the fourth quarter of 2018.

Recognized in the third quarter of 2018

- \$1.5 million (\$1.1 million after tax, or \$0.01 per diluted share) of severance and retention costs in a corporate reorganization that followed the Acquisition;
- \$4.9 million (\$4.9 million after tax, or \$0.04 per diluted share) due to gain on sale of an equity accounted for investment.

Recognized in the second quarter of 2018

- There were no adjustment items recognized in the second quarter of 2018.

Adjusting items during the trailing 12-months ended March 31, 2018 were:

Recognized in the first quarter of 2018

- There were no adjustment items recognized in the first quarter of 2018.

Recognized in the fourth quarter of 2017

- \$2.2 million (\$1.6 million after tax, or \$0.02 per diluted share) of severance and retention costs in a corporate reorganization that followed the Acquisition;
- \$10.1 million (or \$0.10 per diluted share) benefit on remeasurement of deferred taxes due to the Tax Cuts and Jobs Act.

Recognized in the third quarter of 2017

- There were no adjustment items recognized in the third quarter of 2017.

Recognized in the second quarter of 2017

- \$4.8 million (\$4.8 million after tax, or \$0.04 per diluted share) of stock option compensation expense related to the accelerated vesting of certain IronPlanet stock options assumed as part of the Acquisition;
- \$9.1 million (\$6.6 million after tax, or \$0.06 per diluted share) of acquisition and finance structure advisory costs;
- \$1.4 million (\$0.9 million after tax, or \$0.01 per diluted share) of severance and retention costs in a corporate reorganization that followed the Acquisition;
- \$8.9 million (\$6.6 million after tax, or \$0.06 per diluted share) impairment loss recognized on various technology assets.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our market risk during the three months ended March 31, 2019 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, which is available on our website at www.rbauction.com, on EDGAR at www.sec.gov, or on SEDAR at www.sedar.com.

ITEM 4: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management of the Company, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), have evaluated the effectiveness of the Company’s disclosure controls and procedures as at March 31, 2019. The term “disclosure controls and procedures” means controls and other procedures established by the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based upon their evaluation of the Company’s disclosure controls and procedures, the CEO and the CFO concluded that, as at March 31, 2019, the disclosure controls are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

The Company, including its CEO and CFO, does not expect that its internal controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

Effective January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)*, and implemented certain accounting processes and internal controls over financial reporting to ensure we adequately evaluated our leases and appropriately assessed the impact of Topic 842 on our financial statements and disclosures. There have been no other changes in our internal control over financial reporting during the three months ended March 31, 2019 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.